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SUBJECT: QATAR ECONOMY HEATS UP

1. Summary. Qatari Minister of Economy and Commerce, Sheikh Mohamed bin Ahmed Al Thani, has highlighted the country's bright economic prospects in interviews with local press and in a front-page story in the recent Middle East Economic Digest. The economy is expected to grow by 25 to 27 percent, up from 20.5 percent in 2004. This growth is being generated by high energy prices, massive investment in the natural gas sector, and heavy public sector investment in infrastructure. On the down side, inflation is picking up, particularly because of high real estate rental costs and prices for construction materials. The Ministry is promoting a new, tax-free financial center, a Science and Technology park, and a planned "free investment zone" for foreign investment. End Summary.

Growth Outlook

2. The national economy is expected to grow by 25 to 27 per cent this year, said the Minister of Economy and Commerce, Sheikh Mohamed bin Ahmed Al Thani, in a press report October 30. He hinted that he sees the boom continuing over the next six to seven years. Growth was around 20 per cent last year, Sheikh Mohamed told a local Arabic daily and a business periodical in recent interviews. A relatively higher rate of inflation at the moment is a direct fallout of the high economic growth. "The kind of growth the economy is witnessing is not possible without a higher inflation rate," he said.

3. Qatar's development strategy is based on optimum utilization of its massive gas resources. One of the main components of Qatar's economic policy is to help raise the country's competitive edge as a source of affordable and safe energy. According to the minister, investment in liquefied natural gas (LNG), gas-to-liquids (GTL), petrochemical ventures, hospitality and construction industries, as well as health and education sectors, is planned to exceed a staggering \$100bn. Qatar's leading business, Qatar Petroleum, the government-owned giant which has stakes in all oil and gas ventures and in other industrial projects from chemicals to steel, will increase its capital from QR 20 billion to QR 50 billion (approximately \$13 billion) to be able to take on the "mega-projects" and industrial expansion.

4. Another sector that will see a major investment is maritime transportation. Qatar will have the world's largest fleet of Liquefied Natural Gas (LNG) carriers within five years, according to Robert Curt, managing director of the Qatar Gas Transport Company (QGTC or "Nakilat"), which manages the marine interests of the Ras Laffan industrial city's LNG and pipeline projects. Curt said Qatar would need a total of about 90 LNG carriers to handle its natural gas exports over the next five years, which includes over 48 vessels that are currently in service or on order. "This will be the largest fleet of LNG carriers servicing one natural gas producing country. In addition, we will also need a number of Liquefied Petroleum Gas (LPG) and sulfur carriers," said Curt (a U.S. Maritime Academy graduate) in September. He highlighted the need for low-cost debt financing and the hiring of ship operators and crews as issues facing QGTC.

Tax-Free Zones

5. Sheikh Mohamed has been concerned about diversifying the economy beyond the large publicly-held companies, and three "free zones" will help address the issue of economic balance: the Qatar Financial Center (QFC), the Science and Technology Park, and the planned Free Investment Zones. The minister said the country needs to reduce red tape and paperwork to the minimum and encourage free trade and the QFC has done much in this area. The centre, which operates as a free zone for financial ventures, is expected to attract international financial institutions to open offices in areas such as project finance but not retail banking (the ventures won't have branch locations around town). The centre is led by a commercial authority, the QFC Authority, and a regulator, the Regulatory Authority. These entities are independent of each other and from the government of Qatar, but they have independent budgets funded by the state, and both will report independently to the Council of Ministers. Businesses participating in the centre will be entitled to 100% ownership and full repatriation of profits. Businesses will also be

entitled to a three-year tax holiday, after which a corporate tax rate of 10% will apply.

16. Like the QFC, the Science and Technology Park is a tax-free zone. The Qatari government fully funded construction costs for a complex to house configurations of technology and research centers and branches of foreign companies located at Education City, the facility that contains branches of five American universities. GE, Microsoft, Royal Dutch Shell and several of other oil majors have committed to opening offices or research facilities at the park.

17. One of the ministry's key projects for the next two quarters is the establishment of a free investment zone (FIZ) and a regulatory body. The law establishing this body is currently in draft form. Foreign firms would be targeted to invest, but Qatari individuals or companies could also do so. It is expected that the zone would be restricted to certain industries, such as manufacturing or services. It is possible that the "zone" may be a virtual one, existing as a legal construct only. Firms in the FIZ would be exempt from tax for 20 years and would have full right to repatriate profits.

Free Trade Area?

18. In his interview in the October 14 issue of the Middle East Economic Digest, Sheikh Mohamed -- who was featured on the cover -- suggested that an FTA with the U.S. remains some way off. "Any FTA has to be good for the country. And if you look at us as a country, we do not have the finished products yet, which will benefit directly from an FTA with the US. What we sell is raw materials," he said. "The other thing is that we need to make some changes here first. We cannot open up while our private sector and some of our laws are in the making. Take the law on competition; it is now at the cabinet level. We also need a very strong anti-monopoly law.... We are in dialogue with the US and we will be having a meeting in the coming months. And while we will need the FTA in the long term, we are not now the finished product."

Private Qatari Firms Anxious about Liberalization

19. Pampered by the state for years, Qatar's private sector is apprehensive about foreign competition in the country's fast opening up economic and business environment. Used to operating in a monopolistic and protected regime, family and private businesses are keen to ensure they retain state backing and are not sufficiently preparing for competition. Sheikh Mohamed, speaking at the government-sponsored Qatar Chamber of Commerce and Industry (QCCI), said, "We have conducted a study on how best to equip you to operate in a competitive environment, so be prepared for the fight." Fair and free competition is good for everybody -- the economy, the players themselves, and the market at large, said the minister. Monopolies are detrimental to progress, he said, in support of the establishment of free trade areas with other countries. "We have been signing agreements since 1997 committing ourselves to opening up the state economy," said the minister, implying it was not possible to backtrack on the policies only to protect the private sector. He agreed however to a suggestion that red tape needs to be eliminated from the ministry in order to improve efficiency in business.

Comment

110. Qatar's economy is indeed booming, presenting many opportunities for U.S. companies interested and able to do business in the region. The embassy briefs and assists a regular stream of new, returning, and resident executives and managers. They have reported that the month of Ramadan, ending now, saw no leveling off in the pace of activity. All this is not to say that Qatar's economy is open. It is not. Significant constraints remain in labor, telecom, financial, and other sectors. But slow, small steps are being taken in the right direction.